

LOSS CONTROL Newsletter



The Impact of Injuries on Profitability and Cost of Insurance

How do you evaluate the impact of workers injuries on your insurance costs and your dealership profitability?

Do you look solely at a line in the P&L that includes only out of pocket claims costs and your annual insurance premiums?

Do you consider the indirect costs of claims? E.g., repair and/or replacement cost of equipment or the time spent by managers? You don't need us to tell you that time focused on an injury is time away from selling and providing services to customers.

And what about the experience mod increase that results from significant claims costs and that increases your premiums?

What if you reclassified all the direct and indirect costs of workers' compensation injuries to a single line item in the P&L called "Cost of Safety?" What percent of revenues would that number have to be for you to reevaluate your safety program?



Claims costs impact more than your annual insurance premiums. OSHA estimates the total indirect costs of a claim to be 110% or more of the actual claim cost.

Consider the following illustration and approach to valuing the true costs of a claim:

Cost Item	Cost
Actual Claim Cost	\$ 18,000
DIRECT OPERATING COSTS:	
Injured employee wages not covered by insurance	\$160
Wage cost of work stoppage	\$40
Hiring/screening time for replacement worker, if any	\$240
Training time for replacement worker, if any	\$160
Replacement worker learning curve time, if any	\$400
Equipment repair cost	\$4,000
Equipment replacement cost	-----
Labor to clean up, repair or replace equipment	\$80
Claim investigation time	\$80
Claim administration time	\$120
Overhead/fixed costs factor @ 20%	<u>\$1,064</u>
Total direct costs	\$ 6,384
INDIRECT COSTS:	
Loss of revenue during equipment repair, if any	\$1,500
Property insurance deductible for equipment damage	-----
Liability insurance deductible if another injured party	----
Workers' compensation annual premium increase due to an increase in the Experience Mod resulting from higher claims costs	\$1,000
Legal fees, if any	-----
P&C insurance annual premium increase due to related property and/or liability loss costs	-----
Total indirect costs	\$2,500
Total direct & indirect costs	\$8,884
Ratio of direct & indirect costs to actual claim costs	49.4%
Total Costs of Claim	\$26,884

QUESTIONS?

If you have any questions regarding this newsletter or for additional loss control information, please contact Mark Valentine at 816-698-4611 or mark.valentine@aon.com.

The Impact of Injuries on Profitability and Cost of Insurance Cont.

Even small claims can result in significant other costs. If this was a \$3,000 medical only claim and the other costs didn't change, the expense ratio changes from 49% to 296%. OSHA uses a 450% indirect cost ratio for claims below \$3,000. (OSHA's claim cost estimator can be found at: <https://www.osha.gov/dcsp/smallbusiness/safetypays/estimator.html>).



Safety and a safety culture are not free, but they can have a big impact on your profits. And while some may relate safety only to claim costs and profits, an equally if not more important aspect is that of employee attitude and well-being. Your employees are more likely to have a positive attitude and be more productive when they know they work in an environment that values their personal safety and well-being.

Now consider your profit margin. Assume a 5% operating margin; assume the actual claim costs are paid by insurance; you need \$177,680 in additional revenue to cover the other costs of this one claim (\$8,884 / .05). If you were responsible for the entire cost, that revenue number becomes \$537,680.

Workers' compensation claims can also negatively impact your other insurance premiums, including property, auto, and general liability.

Make your safety culture a profitable and winning proposition.

This newsletter is distributed by the Kansas Automobile Dealers Workers' Compensation Fund (KADWCF) to increase awareness and stress the importance of safe work practices.

Reporting a claim to Gallagher Bassett (GB)

Fund Account Number: 004352

Internet: www.risxfacs.com

Telephone: 1-800-779-6142

Fax: 1-800-748-6159

Email: tnwclaims@tnwinc.com

Dedicated Adjuster:

Josie Landes – Senior Adjuster

Phone: 816-216-5516

Josephine_Landes@gbtpa.com

(Per above, please report claims to tnwclaims@tnwinc.com.)

Claim related medical bills should be mailed to:

Gallagher Bassett Central Bill

Processing Center

P.O. Box 23812

Tucson, AZ 85734

Any other claim related information should be

mailed to your adjuster at:

Gallagher Bassett

1300 E. 104th Street, Suite 200

Kansas City, MO 64131

or Fax to: 816-942-0695

You can also email the information directly to the adjuster. The preferred method to report claims is via the internet.

